

Message Text

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ACTION ARA-14

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C O N F I D E N T I A L KINGSTON 6266

E.O. 11652: GDS
TAGS: PDEV, ECON, JM
SUBJECT: GOVERNMENT ACQUIRES FOUR MORE HOTELS

1. MINISTER OF STATE FOR TOURISM, JACK STEPHENSON, ANNOUNCED
OCTOBER 4 THAT FOUR OF JAMAICA'S LARGEST HOTELS WOULD BE
ACQUIRED BY THE GOVERNMENT AS PART OF A MAJOR REORGANIZATION
OF THE TOURIST INDUSTRY.

2. HOTELS MARKED FOR GOVERNMENT OWNERSHIP ARE THE HOLIDAY
INN AND ROSE HALL INTERCONTINENTAL IN MONTEGO BAY, THE
PEGASUS IN KINGSTON, AND THE RUNAWAY BAY HOTEL NEAR OCHO
RIOS. ALL ARE IN SERIOUS FINANCIAL DIFFICULTY AND WILL BE
ACQUIRED BY THE GOVERNMENT-OWNED NATIONAL HOTELS AND
PROPERTIES LTD. (NHP).

3. THE 508-ROOM HALL INTERCONTINENTAL DEFAULTED ON
LOAN REPAYMENTS OF US\$360,000 IN AUGUST 1976 AND US\$724,000
IN FEBRUARY 1977. THE GOJ WILL PURCHASE \$1.6 MILLION
WORTH OF INTERCONTINENTAL'S SHARES AT PAR VALUE,
OVER A FIVE YEAR PERIOD. IN ADDITION, THE GOVERNMENT
WILL GUARANTEE INTERCONTINENTAL'S UNSECURED LOANS OF
\$4.2 MILLION. THE JAMAICA GOVERNMENT'S ACQUISITION
COST WILL BE ONLY \$8 MILLION ALTHOUGH THE HOTEL'S
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ASSETS ARE PRESENTLY VALUED AT \$23 MILLION.

4. THE 558-ROOM HOLIDAY INN, JAMAICA'S LARGEST HOTEL,
HAS BEEN BOUGHT BY THE GOVERNMENT FOR \$8.5 MILLION.
THE HOLIDAY INN CHAIN WILL CONTINUE TO MANAGE THE
PROPERTY UNDER NHP SUPERVISION.

5. THE RUNAWAY BAY HOTEL, NOW OWNED BY BERNARD SUNLEY INVESTMENT TRUST LTD. OF LONDON, IS BEING BOUGHT FOR \$2.74 MILLION.

6. THE GOVERNMENT IS ALSO ACQUIRING SIXTH PERCENT INTEREST IN THE PEGASUS HOTEL BY CONVERTING A LOAN OF \$1.5 MILLION TO THE FORMER OWNERS, BRITISH AIRWAYS AND TRUST HOUSES FORTE, INTO SHARES IN THE HOTEL.

7. COMMENT: IN THE EARLY 1970'S THE JAMAICAN GOVERNMENT SOUGHT TO EXPAND THE ISLAND'S TOURIST INDUSTRY BY UNDERWRITING LOANS TO DEVELOPERS. WHILE THE NUMBER OF HOTEL ROOMS IN JAMAICA NEARLY DOUBLED BETWEEN 1970 AND 1977, THE ISLAND IS NOW ATTRACTING FEWER TOURISTS THAN AT ANY TIME DURING THIS PERIOD. AS A RESULT, THE GOVERNMENT IS HAVING TO HONOR ITS GUARANTEES ON LOANS TO DEVELOPERS WHO CANNOT MEET THEIR PRESENT OBLIGATIONS. FACED WITH THE POSSIBILITY OF SHUTDOWNS AND LAYOFFS AT MAJOR HOTELS LIKE THE INTERCONTINENTAL AND THE HOLIDAY INN, THE GOVERNMENT HAS DECIDED TO BUY THEM OUT, PRIMARILY TO ENSURE CONTINUED EMPLOYMENT. PURCHASE COSTS HAVE BEEN RELATIVELY LOW WHEN COMPARED TO THE ORIGINAL VALUE OF FIXED ASSETS. MANAGEMENT OFFICIALS AT ALL FOUR HOTELS INDICATED THAT OWNERS WERE PLEASED BY THE
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GOVERNMENT'S ACQUISITION, FOR IT ALLOWS THE PRESENT OWNERSHIP AN ESCAPE FROM HEAVY OPERATING LOSSES AND COSTLY DEBT SERVICING.

8. GOVERNMENT CONTROL IS UNLIKELY, HOWEVER, TO BE THE ANSWER FOR JAMAICA'S AILING TOURIST INDUSTRY. UNLESS THERE IS A MAJOR TURN AROUND IN THE TOURISM SECTOR, THE HOTEL ACQUISITIONS MAY COST THE GOVERNMENT \$10-12 MILLION IN OPERATING LOSSES THIS YEAR (ACCORDING TO ONE HOTEL SOURCE) AND FURTHER STRAIN THE GOJ'S ALREADY OVERBURDENED BUDGET.

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